

Message Text

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ACTION EB-06

INFO OCT-01 EUR-08 NEA-06 ISO-00 FEA-01 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 5866

INFO USINT ALGIERS

AMEMBASSY PARIS

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 16742

E.O. 11652: GDS

TAGS: ENRG, GW, AG, FR, SZ, AU

SUBJECT: GERMAN/ALGERIAN NATURAL GAS PROJECTS

REF: ALGIERS 868

1. ACCORDING TO AN ECONOMICS MINISTRY SOURCE NEGOTIATIONS FOR THE EUROGAS I PROJECT ARE NOW REACHING A CRITICAL STAGE. THE SALES CONTRACT FOR THE DELIVERY OF 15.5 BILLION CUBIC METERS OF GAS ANNUALLY WHICH WAS SIGNED IN NOVEMBER, 1972 WAS CONTINGENT UPON EUROPEAN ARRANGEMENT FOR FINANCING OF THE RELATED \$1.5 BILLION WORTH OF FACILITIES. SINCE THE SALES CONTRACT CONTAINED A PRICE OF 42 CENTS PER MILLION BTU WITH A 2 PERCENT YEARLY INCREASE, THE EUROPEAN CONSORTIUM IS BENDING OVER BACKWARD TO ARRANGE THE FINANCING IN ORDER TO OBTAIN THE GAS AT SUCH A FAVORABLE PRICE.

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2. THE FINANCING PACKAGE AS IT PRESENTLY STANDS IS A CONVOLUTED MIXTURE OF EXTRAORDINARILY LONG TERMS AND LOW INTEREST RATES. ACCORDING TO OUR SOURCE THESE FINANCING COSTS DIFFER FROM MARKET RATES TO THE EXTENT THAT THEY ADD AROUND 30 CENTS PER MILLION BTU TO THE COST OF THE GAS. THIS ARRANGEMENT INCREASES THE RISK TO THE GAS COMPANIES INVOLVED SINCE THEY WILL HAVE TO MEET THESE EXTRAORDINARY FINANCING COSTS EVEN IF FOR SOME REASON THE GAS SUPPLY IS CUT OFF.

3. THE CONTRACT FOR THE GAS CONTAINS A HARDSHIP CLAUSE ENABLING THE ALGERIANS TO DEMAND RENEGOTIATION OF THE PRICE IN THE CASE OF "NEW ECONOMIC CONDITIONS". THE FRG IS INSISTING THAT AS A PART OF THE FINANCING PACKAGE THE ALGERIANS PROVIDE A LETTER STATING THAT ANY RENEGOTIATION OF THE PRICE WOULD ALSO INCLUDE A RENEGOTIATION OF THE FINANCING COSTS. OUR SOURCE SAID THAT THE OTHER EUROPEAN GOVERNMENTS INVOLVED HAVE AGREED WITH THIS APPROACH, ALBEIT RELUCTANTLY IN THE CASE OF THE FRENCH. NEGOTIATIONS ON THE FINANCING ARE SCHEDULED TO RESUME ON OCT 28. IF THE ALGERIANS REFUSE TO PROVIDE SUCH A LETTER OUR SOURCE EXPECTS A LONG NEGOTIATING PAUSE. THE FRG IS NOT OPTIMISTIC THAT THESE NEGOTIATIONS WILL BE CONCLUDED IN THE NEAR FUTURE.

5. NEGOTIATIONS ON THE SECOND GERMAN/ALGERIAN DEAL ALSO SHOW LITTLE SIGN OF EARLY MOVEMENT. THE GERMAN FIRMS RUHRGAS AND SALZGITTER SIGNED A CONTRACT IN JUNE WITH SONATRACH FOR 6 BILLION CUBIC METERS OF GAS ANNUALLY. A SIDE LETTER TO THE CONTRACT STATED THAT THE PRICE AGREED TO MUST BE IMMEDIATELY RENEGOTIATED. RUHRGAS IS ARGUING FOR A PRICE IN THE AREA OF 80 CENTS PER MILLION BTU FOB ALGIERS WHEREAS SONATRACH IS DEMANDING A PRICE IN THE NEIGHBORHOOD OF \$1.50. NO NEW NEGOTIATIONS ON THIS CONTRACT ARE SCHEDULED IN THE NEAR FUTURE.
HILLENBRAND

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